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Annual Report



THE AVIATION CORPORATION

with

Consolidated Financial Statements

December 31, 1935

THE AVIATION CORPORATION

105 West Adams Street

Chicago, Illinois

March 28, 1936.

TO THE STOCKHOLDERS OF

THE AVIATION CORPORATION:

The consolidated balance sheet and consolidated statements of profit and loss and paid-in surplus of The Aviation Corporation and subsidiary companies for the year ended December 31, 1935 are submitted herewith.

The consolidated balance sheet reflects the strong financial condition of the company, with properties and assets conservatively stated. The investments of the company in aeronautical securities, carried on the books at a value of \$726,236, include 67,597 shares of Pan American Airways Corporation, the present market value of which is \$3,920,625, and 60,000 shares of Roosevelt Field Inc., the present market value of which is \$225,000. These unrealized profits on securities held in the corporation's portfolio are naturally not reflected in the profit and loss statement.

The consolidated net loss of the company is entirely attributable to the manufacturing, experimental and development interests of the company acquired in November, 1934. No aircraft or engine manufacturer can hope to be successful under present day conditions unless it possesses highly developed and advanced products requiring long and costly periods of development and testing before the products are acceptable either for military use or commercial air transport service. During the year 1935 your management pursued an intensive experimental and development program. Through the efforts of the highly trained and skilled organization that your company now has, the development of certain products has recently been completed, for which substantial orders have already been received. These products, with other developments nearing completion, will place your company in a highly competitive position in the industry. The products include military and commercial airplanes, engines of extremely high output and other military training and commercial aircraft engines, controllable pitch propellers and other accessories.

Net sales for the entire year 1935 amounted to approximately \$1,794,000. Unfilled orders at this date for Vultee and Stinson planes, Lycoming engines, and Lycoming-Smith controllable pitch propellers amount to over \$2,000,000. The business on hand includes substantial orders from the United States Army and Navy, a prominent foreign government, as well as air transport operators and commercial and private owners.

One of the outstanding developments of the year was the Vultee V-11 military attack bomber, one of the most powerful and fastest long-range fighting machines in the world. Orders on hand and in immediate prospect for this type of plane are expected to keep its plant operating at capacity for more than a year and a half.

During the past year the stocks of American Airlines, Inc. and Canadian Colonial Airways, Inc., previously owned by this corporation, have been distributed to its stockholders in compliance with the Air-Mail Act of 1934, but the trustees appointed to hold for your benefit the securities of companies holding air-mail contracts still have on hand at this date 38,600 shares of General Aviation Corporation, 57,900 shares of North American Aviation, Inc., and 4,632 shares of Transcontinental & Western Air, Inc. which they have not yet been able to dispose of at a price deemed by the trustees to be satisfactory. The action taken by the stock-

holders at the annual meeting in 1935 authorized the trustees to sell the securities referred to and distribute the proceeds to the stockholders, but if unable to sell said securities at prices satisfactory to the trustees, to make distribution of the securities themselves direct to the stockholders of the company. Inasmuch as General Aviation Corporation has now divested itself of all securities of air-mail contractors, there remains no legal reason why the stock of General Aviation Corporation should not be returned to the portfolio of The Aviation Corporation, and for this reason it is recommended that the stockholders rescind the action taken at the 1935 annual meeting and authorize the trustees to return the 38,600 shares of stock of General Aviation Corporation to The Aviation Corporation. Furthermore, from a practical standpoint, it seems impossible to distribute 57,900 shares of stock of North American Aviation, Inc. and 4,632 shares of stock of Transcontinental & Western Air, Inc. among approximately 25,000 stockholders of the outstanding 2,777,750 shares of the capital stock of The Aviation Corporation without splitting the shares to be distributed into small fractions which stockholders would find difficult and expensive to dispose of. The trustees therefore also recommend, and your directors concur, that the stockholders of the corporation, at the annual meeting to be held on April 21, 1936, rescind the action previously taken at the annual meeting of 1935 relating to the stocks in question in so far as such action authorized the distribution of same or the proceeds from the sale thereof to the stockholders of The Aviation Corporation, and in lieu thereof, authorize the trustees to sell at the best price obtainable and at the earliest practicable date the shares of North American Aviation, Inc. and Transcontinental & Western Air, Inc., and thereafter to pay over to The Aviation Corporation the net proceeds of such sale.

Since July 1, 1935 holders of the old \$5.00 par value (or no par value) stock of The Aviation Corporation have been entitled to surrender the same and to receive in exchange a like number of shares of the present \$3.00 par value stock of The Aviation Corporation plus one-tenth share of the stock of American Airlines, Inc. and one-twentieth share of the stock of Canadian Colonial Airways, Inc. for each share of \$5.00 par value (or no par value) stock of The Aviation Corporation surrendered. Numerous stockholders of The Aviation Corporation have not as yet made this exchange and secured the stock of American Airlines, Inc. and Canadian Colonial Airways, Inc. which they are entitled to receive, and as their names do not appear on the stockholders' lists of American Airlines, Inc. and Canadian Colonial Airways, Inc., they will not receive such reports as these companies make to their stockholders. All stockholders of The Aviation Corporation who still retain the certificates representing the old \$5.00 par value (or no par value) stock of the company are urged without further delay to deliver or send their certificates by registered mail to the stock transfer office of the corporation:

The Aviation Corporation
Room 1936
40 Wall Street
New York City, N. Y.

in order that the exchange authorized by the stockholders at the 1935 annual meeting may be effected and the balance of the stock of American Airlines, Inc. and Canadian Colonial Airways, Inc. issued in their names.

The annual report will be submitted to the stockholders of this corporation for approval at the annual meeting to be held in Wilmington, Delaware, on April 21, 1936. Stockholders who do not expect to attend the meeting personally are requested to execute and mail the enclosed proxy, which is solicited in behalf of the present management of the corporation.

By order of the Board of Directors.

Very truly yours,

L. B. MANNING, President.

THE AVIATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash	\$3,119,275.52
United States Government bonds, at cost	25,200.00
Notes and accounts receivable, less reserve	304,208.11
Indebtedness of officers and employees	1,819.30
Accrued interest receivable	29,017.90
Inventories at cost, less reserve	1,036,348.54

\$ 4,515,869.37

UNITED STATES GOVERNMENT BONDS DEPOSITED IN CONNECTION WITH ANNULLED AIR MAIL CONTRACTS

260,000.00

ACCOUNTS RECEIVABLE FROM UNITED STATES POST OFFICE DEPARTMENT FOR SERVICES PERFORMED UNDER AIR MAIL CONTRACTS ANNULLED FEBRUARY 19, 1934

311,710.70

NOTES RECEIVABLE FROM AMERICAN AIRLINES, INC.:

Demand note secured by mortgage on property and equipment

3,136,664.03

INVESTMENTS IN AERONAUTICAL SECURITIES, representing less than majority ownership, at fair values determined by directors at December 31, 1932 (Market value December 31, 1935, \$3,462,665.50)

726,236.00

INVESTMENTS IN OTHER AERONAUTICAL SECURITIES, which securities are held in trust for the benefit of stockholders of The Aviation Corporation:

38,600 shares of \$1 par value capital stock of General Aviation Corporation (in liquidation)

Received in liquidation—

57,900 shares of \$1 par value capital stock of North American Aviation, Inc. (Market value December 31, 1935, \$412,537.50)

4,632 shares of \$5 par value capital stock of Transcontinental & Western Air, Inc. (Market value December 31, 1935, \$68,901)

At fair value of capital stock of General Aviation Corporation, determined by directors, December 31, 1932

106,150.00

LAND, BUILDINGS, MACHINERY AND OTHER EQUIPMENT—MANUFACTURING (AT COST)

Less: Reserve for depreciation

\$1,137,431.73

278,951.37

858,480.36

LAND, BUILDINGS AND OTHER EQUIPMENT—IN PROCESS OF LIQUIDATION (AT COST)

Less: Reserve for depreciation

\$ 728,948.93

636,940.01

92,008.92

IDLE PROPERTY AND EQUIPMENT, AT VALUES DETERMINED BY DIRECTORS AT DECEMBER 31, 1932

Less: Reserve for depreciation

\$1,012,084.24

363,269.79

648,814.45

DEFERRED CHARGES

28,658.73

DEVELOPMENT EXPENSES, PATENTS, ETC.

724,429.06

\$11,409,021.62

CORPORATION

RY COMPANIES

SHEET—DECEMBER 31, 1935

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 224,314.15	
Accrued expenses	49,488.46	\$ 273,802.61
		42,600.00
PURCHASE MONEY OBLIGATIONS		
RESERVE AGAINST PROPERTIES, LEASES AND CONTINGENCIES		654,967.70

CAPITAL STOCK AND SURPLUS:

Capital stock—			
Authorized— 5,000,000 shares, par value \$3 per share			
Issued— 2,831,041 shares, par value \$3 per share	\$8,493,123.00		
Less: 53,291 shares in treasury (Cost \$197,321.82)	159,873.00		
Outstanding—2,777,750 shares in the hands of the public		\$8,333,250.00	
Paid-in surplus		4,139,883.97	
Earned surplus (deficit)—Balance, December 31, 1934	\$1,603,060.98*		
Add: Net loss for year ended December 31, 1935	432,421.68*		
		2,035,482.66*	
			10,437,651.31

(Options on stock exercisable prior to January 1, 1937 are outstanding as follows—1,273,166 at \$20 per share)

\$11,409,021.62

*Red.

To the Board of Directors,
THE AVIATION CORPORATION:

We have made an examination of the consolidated balance sheet of The Aviation Corporation and its subsidiaries as at December 31, 1935 and of the consolidated statements of profit and loss and surplus for the year 1935. In connection therewith we examined or tested accounting records of the companies and other supporting evidence, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Charges amounting to \$306,995.73 applicable to prior years have been properly made during the year against the reserve for properties, leases and contingencies which was provided at December 31, 1932.

In our opinion, based on such examination, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies, their consolidated position at December 31, 1935 and the results of consolidated operations for the year ended that date.

ARTHUR YOUNG & COMPANY,
Certified Public Accountants.

Chicago, Illinois,
March 27, 1936.

THE AVIATION CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1935

Net sales of manufactured products		\$1,782,372.65
Other operating income (net)		12,329.71
Cost of sales		\$1,794,702.36
		1,667,911.66
Gross profit from manufactured products		\$ 126,790.70
Other income:		
Interest	\$ 74,375.53	
Dividends	67,712.00	
Rents, etc.	37,466.59	
		179,554.12
Expenses and other deductions:		\$ 306,344.82
Manufacturing—		
Selling, advertising, etc.	\$122,976.62	
General and administrative	279,029.03	
Engineering and experimental	380,176.91	
Parent company—		
General and administrative	81,112.07	
Stock registration and other corporate expenses	52,692.74	
Loss from security transactions	1,452.31	
State, local and federal taxes, other than income tax	34,148.11	
		951,587.79
Net profit from liquidation of surplus property and equipment (before provision for depreciation)		\$ 645,242.97*
		67,216.09
Net loss before provision for depreciation		\$ 578,026.88*
Provision for depreciation		92,906.56
Consolidated net loss		\$ 670,933.44*
Portion of above losses of subsidiary companies applicable to minority interests to the extent of their investment therein		238,511.76
Net loss applicable to The Aviation Corporation		<u>\$ 432,421.68*</u>

*Red.

THE AVIATION CORPORATION AND SUBSIDIARY COMPANIES

STATEMENT OF PAID-IN SURPLUS DECEMBER 31, 1935

BALANCE, DECEMBER 31, 1934	\$ 122,643.55
<i>Add:</i>	
Credit arising from reduction of par value of 2,831,041 shares of capital stock from \$5 per share to \$3 per share	5,662,082.00
Excess of par value over cost of capital stock reacquired	2.05
	<u>\$5,784,727.60</u>
<i>Deduct:</i>	
Partial liquidating dividend resulting from distribution of stocks of air line operating companies, which stocks were held in trust at December 31, 1934 for the benefit of stockholders of The Aviation Corporation—	
American Airlines, Inc.—277,775 shares	\$1,406,358.09
Canadian Colonial Airways, Inc.—138,887½ shares	131,903.54
	<u>\$1,538,261.63</u>
Reduction in carrying value of 53,291 shares of treasury stock from \$5 per share to \$3 per share	106,582.00
	<u>1,644,843.63</u>
BALANCE, DECEMBER 31, 1935	<u><u>\$4,139,883.97</u></u>

INVESTMENT IN AERONAUTICAL SECURITIES, REPRESENTING LESS THAN MAJORITY OWNERSHIP DECEMBER 31, 1935

Description	Number of shares	Par value	At fair value determined by directors at Dec. 31, 1935	Quoted market value, Dec. 31, 1935
Listed on stock exchanges:				
Bendix Aviation Corporation, common stock	500	\$ 5.00	\$ 5,000.00	\$ 11,687.50
Pan American Airways Corporation, common stock	67,597	10.00	691,235.00	3,312,253.00
Roosevelt Field Inc. capital stock	60,000	5.00	30,000.00	127,500.00
Not listed on stock exchanges:				
Canadian Airways, Ltd., capital stock	2,245	No par value	1.00	11,225.00
			<u>\$726,236.00</u>	<u>\$3,462,665.50</u>



THE NATIONAL ASSOCIATION
OF THE DEAF

AMERICAN DEAF-AND-MUTE COLLEGE
WASHINGTON, D. C.

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